Interim Condensed Consolidated Financial Statements of

MEDICAL FACILITIES CORPORATION

For three and six months ended June 30, 2016
(Unaudited)
(In U.S. dollars)

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MEDICAL FACILITIES CORPORATION

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(In thousands of U.S. dollars)
(Unaudited)

	Note	June 30, 2016 $	December 31, 2015 $
ASSETS			
Current assets			
Cash and cash equivalents		58,879	57,969
Short-term investments		10,544	12,975
Accounts receivable		40,469	48,754
Supply inventory		5,980	6,031
Income tax receivable		549	-
Prepaid expenses and other		3,478	4,160
Total current assets		**119,899**	**129,889**
Non-current assets			
Deferred income tax assets		21,523	18,286
Property and equipment		63,803	61,121
Goodwill	4	106,796	102,714
Other intangibles		64,070	70,103
Other assets	13.1	848	839
Total non-current assets		**257,040**	**253,063**
TOTAL ASSETS		**376,939**	**382,952**
LIABILITIES AND EQUITY			
Current liabilities			
Dividends payable		2,253	2,107
Accounts payable		13,232	19,035
Accrued liabilities		12,637	14,307
Income tax payable		-	849
Current portion of long-term debt		7,348	7,848
Total current liabilities		**35,470**	**44,146**
Non-current liabilities			
Long-term debt		31,996	27,580
Deferred income tax liabilities		-	4,249
Convertible debentures		34,217	30,614
Exchangeable interest liability	12.2	87,885	61,681
Total non-current liabilities		**154,098**	**124,124**
Total liabilities		**189,568**	**168,270**
Equity			
Share capital		397,522	398,166
Contributed surplus	15	35	-
Deficit		(257,094)	(232,312)
Equity attributable to owners of the Corporation		140,463	165,854
Non-controlling interest		46,908	48,828
Total equity		**187,371**	**214,682**
TOTAL LIABILITIES AND EQUITY		**376,939**	**382,952**

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

MEDICAL FACILITIES CORPORATION

Interim Consolidated Statements of Changes in Equity
(In thousands of U.S. dollars)
(Unaudited)

		Attributable to Owners of the Corporation				Non-controlling Interest	Total Equity
		Share Capital $	**Contributed surplus $**	**Deficit $**	**Total $**	**$**	**$**
2016							
Balance at January 1, 2016		**398,166**	**-**	**(232,310)**	**165,856**	**48,828**	**214,684**
Net income (loss) and comprehensive income (loss) for the period		-	-	(11,519)	(11,519)	12,880	1,361
Stock option expense	15		35		35		35
Dividends to owners of the Corporation		-	-	(13,265)	(13,265)	-	(13,265)
Distributions to non-controlling interest		-	-	-	-	(16,482)	(16,482)
Acquisition of Integrated Medical Delivery, L.L.C.	4	-	-	-	-	1,682	1,682
Purchase of common shares under normal course issuer bids	6	(644)	-	-	(644)	-	(644)
Balance at June 30, 2016		**397,522**	**35**	**(257,094)**	**140,463**	**46,908**	**187,371**
2015							
Balance at January 1, 2015		400,467	-	(252,110)	148,357	51,723	200,080
Net income and comprehensive income for the period		-	-	30,226	30,226	26,558	56,784
Dividends to owners of the Corporation		-	-	(14,129)	(14,129)	-	(14,129)
Distributions to non-controlling interest		-	-	-	-	(18,952)	(18,952)
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		1,147	-	-	1,147	-	1,147
Purchase of common shares under normal course issuer bids	6	(247)	-	-	(247)	-	(247)
Balance at June 30, 2015		**401,367**	**-**	**(236,013)**	**165,354**	**59,329**	**224,683**

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

MEDICAL FACILITIES CORPORATION

Interim Consolidated Statements of Income and Comprehensive Income
(In thousands of U.S. dollars, except per share amounts)
(Unaudited)

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note	2016 $	2015 $	2016 $	2015 $
Facility service revenue		**76,728**	**73,636**	**152,673**	**145,881**
Operating expenses					
Salaries and benefits		22,961	19,240	45,038	38,398
Drugs and supplies		22,538	20,450	44,763	39,938
General and administrative expenses		12,305	11,914	24,053	23,237
Depreciation of property and equipment		2,048	2,234	4,197	4,581
Amortization of other intangibles		3,111	3,817	6,033	7,562
		62,963	**57,655**	**124,084**	**113,716**
Income from operations		**13,765**	**15,981**	**28,589**	**32,165**
Finance costs					
Increase (decrease) in value of convertible debentures		(166)	(677)	3,603	(3,708)
Increase (decrease) in value of exchangeable interest liability		15,560	(4,953)	26,204	(19,449)
Interest expense on exchangeable interest liability		2,024	2,143	4,613	4,890
Interest expense, net of interest income	8	696	747	1,433	1,497
Loss (gain) on foreign currency		12	(567)	(770)	3,074
		18,126	**(3,307)**	**35,083**	**(13,696)**
Income (loss) before income taxes		**(4,361)**	**19,288**	**(6,494)**	**45,861**
Income tax expense (recovery)	10	(4,986)	2,882	(7,849)	11,605
Income for the period from continuing operations		**625**	**16,406**	**1,355**	**34,256**
Discontinued operation					
Income (loss) for the period from discontinued operation, net of tax		(23)	21,586	6	22,528
Net income and Comprehensive income for the period		**602**	**37,992**	**1,361**	**56,784**
Attributable to:					
Owners of the Corporation		(5,733)	18,966	(11,519)	30,226
Non-controlling interest		6,335	19,026	12,880	26,558
		602	**37,992**	**1,361**	**56,784**
Earnings (loss) per share					
From continuing and discontinued operations					
Basic	11	$ (0.18)	$ 0.61	$ (0.37)	$ 0.97
Fully diluted	11	$ (0.18)	$ 0.45	$ (0.37)	$ 0.50
From continuing operations					
Basic	11	$ (0.18)	$ 0.30	$ (0.37)	$ 0.64
Fully diluted	11	$ (0.18)	$ 0.20	$ (0.37)	$ 0.24

MEDICAL FACILITIES CORPORATION

Interim Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)
(Unaudited)

	Note	Six Months Ended June 30, 2016 $	2015 $
Cash flows from operating activities			
Net income for the period		1,361	56,784
Adjustments for:			
Depreciation of property and equipment		4,197	4,755
Amortization of other intangibles		6,033	7,873
Share of equity income in an associate		(69)	(66)
Change in value of convertible debentures		3,603	(3,708)
Change in value of exchangeable interest liability		26,204	(19,449)
Stock option expense	15	35	-
Loss (gain) on foreign currency		(770)	3,074
Gain on sale of assets		-	(20,953)
Income tax expense (recovery)		(7,853)	11,694
Interest expense, net of interest income		6,045	6,457
		38,786	46,461
Changes in non-cash operating working capital	7	1,949	3,237
		40,735	49,698
Interest paid, net of received		(6,045)	(6,456)
Income and withholding taxes paid		(1,032)	(1,639)
Net cash provided by operating activities		**33,658**	**41,603**
Cash flows from investing activities			
Purchase of property and equipment		(6,542)	(2,491)
Investment in Integrated Medical Delivery, L.L.C.	4	(1,738)	-
Net proceeds from the sale of DPSC's assets included in discontinued operation		-	33,766
Redemption of short-term bank deposits		2,431	258
Redemption of long-term bank deposits		-	1,878
Collateral posted on foreign exchange forward contracts classified as restricted cash		-	(2,061)
Net cash generated by investing activities		**(5,849)**	**31,350**
Cash flows from financing activities			
Net proceeds from revolving credit facilities at the Centers		4,379	906
Repayments of notes payable at the Centers		(1,863)	(1,846)
Distributions, return of capital and loan receivable from an associate		60	30
Distributions to non-controlling interest		(16,482)	(18,952)
Dividends paid		(13,119)	(14,304)
Purchase of common shares under the terms of normal course issuer bids	6	(644)	(247)
Net cash used in financing activities		**(27,669)**	**(34,413)**
Increase in cash and cash equivalents		**140**	**38,540**
Effect of exchange rate fluctuations on cash balances held	9	770	(4,147)
Cash and cash equivalents, beginning of the period		57,969	41,309
Cash and cash equivalents, end of the period		**58,879**	**75,702**
Non-cash transactions:			
Acquisition of additional interest in Oklahoma Spine Hospital, LLC		-	1,147
Discharge of real estate loan at Dakota Plains Surgical Center, LLP		-	3,157

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

1. REPORTING ENTITY

Medical Facilities Corporation (the "Corporation") is a British Columbia corporation. The address of the Corporation's head office is 45 St. Clair Avenue West, Suite 200, Toronto, Ontario, Canada. The common shares of the Corporation are listed on the Toronto Stock Exchange under the ticker symbol "DR".

The Corporation's operations are based in the United States. Through its wholly-owned subsidiaries, the Corporation owns controlling interests in six limited liability entities, five of which own a specialty hospital or an ambulatory surgery center (the "Centers"). On June 30, 2015, Dakota Plains Surgical Center, LLP, the Corporation's 65% owned subsidiary, sold assets related to the operation of its specialty hospital (note 5). During the six months ended June 30, 2016, the Corporation acquired a 51% controlling interest in Integrated Medical Delivery, L.L.C. (IMD), a diversified healthcare service company that provides third-party business solutions to healthcare entities (note 4).

The Centers' and Integrated Medical Delivery, L.L.C.'s locations and the Corporation's ownership interest in each are as follows:

		Ownership Interest June 30,	
Centers	**Location**	**2016**	**2015**
Black Hills Surgical Hospital, LLP ("BHSH")	Rapid City, South Dakota	54.2%	54.2%
Sioux Falls Specialty Hospital, LLP ("SFSH")	Sioux Falls, South Dakota	51.0%	51.0%
Oklahoma Spine Hospital, LLC ("OSH")	Oklahoma City, Oklahoma	60.3%	60.3%
Arkansas Surgical Hospital, L.L.C. ("ASH")	North Little Rock, Arkansas	51.0%	51.0%
The Surgery Center of Newport Coast, LLC ("SCNC")	Newport Beach, California	51.0%	51.0%
Other			
Integrated Medical Delivery, L.L.C. ("IMD")	Oklahoma City, Oklahoma	51.0%	-

2. STATEMENT OF COMPLIANCE

These unaudited interim condensed consolidated financial statements ("consolidated financial statements") have been prepared in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") using the accounting policies as described in the annual financial statements as at December 31, 2015 and presented in note 15 to these consolidated financial statements.

These consolidated financial statements were approved for issue by the Corporation's Board of Directors on August 10, 2016.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

3. BASIS OF PREPARATION

These consolidated financial statements do not contain all of the disclosures that are required in annual financial statements prepared under International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2015, which include information necessary or useful to understand the Corporation's business and financial statement presentation.

Income from operations for the interim period is not necessarily indicative of the results for the full year. Facility service revenues and certain directly related expenses are subject to seasonal fluctuations due to the timing of case scheduling, which can be impacted by the vacation schedules of surgeons, as well as the extent to which patients have remaining deductibles on their insurance coverage, based on the time of year. Occupancy related expenses, certain operating expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

The Corporation's consolidated financial statements are reported in U.S. dollars which is its functional and presentation currency. All financial information presented in U.S. dollars has been rounded to the nearest thousand, unless otherwise indicated.

4 ACQUISITION OF INTEGRATED MEDICAL DELIVERY, L.L.C.

On January 14, 2016, the Corporation acquired a 51% controlling interest in Integrated Medical Delivery, L.L.C. ("IMD") for a cash purchase price of $1,750. IMD is a diversified healthcare service company located in Oklahoma City, Oklahoma that provides business solutions to healthcare entities such as physician practices, facilities, and insurance companies. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of IMD are included in the consolidated financial statements.

The purchase price allocation as at June 30, 2016 is as follows:

	$
Current assets, less current liabilities (including cash of $12)	411
Property and equipment	337
Goodwill	4,082
Long-term debt	(1,398)
Non-controlling interest	(1,682)
Fair value of net assets acquired	**1,750**

The goodwill attributable to this acquisition includes the value of the workforce acquired, the benefit of future revenue growth and opportunities to expand within the marketplace.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

5. DISCONTINUED OPERATION

On June 4, 2015, Dakota Plains Surgical Center, LLP ("DPSC"), the Corporation's 65% owned subsidiary, sold the assets related to the operation of its specialty hospital in Aberdeen, South Dakota, and discharged encumbrances related to the assets sold. The transaction was completed on June 30, 2015.

5.1 Results of discontinued operation

The comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 $	2015 $	2016 $	2015 $
Facility service revenue	(17)	2,893	47	6,226
Operating expenses	14	2,224	39	4,492
Income (loss) from operations	**(31)**	**669**	**8**	**1,734**
Finance costs	-	35	-	70
Income (loss) before income taxes	**(31)**	**634**	**8**	**1,664**
Income tax expense (recovery)	(8)	1	2	89
Gain on sale of DPSC's assets	-	20,953	-	20,953
Net income (loss) for the period from discontinued operation	**(23)**	**21,586**	**6**	**22,528**

5.2 Cash flows from discontinued operation

	Six Months Ended June 30,	
	2016 $	2015 $
Net cash provided by (used in) operating activities	(66)	2,163
Net cash generated by investing activities	-	33,755
Net cash used in financing activities	(229)	(4,084)
Net cash flow for the period	**(295)**	**31,834**

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

6. NORMAL COURSE ISSUER BIDS FOR COMMON SHARES

In May 2016, the Corporation renewed its current normal course issuer bid for up to 620,919 of its common shares, which is in effect from May 16, 2016 to May 15, 2017. During the six-month period ended June 30, 2016, the Corporation purchased 67,500 of its common shares for a total consideration of $644 from the open market, with no purchases taking place during the three-month period ended June 30, 2016. During the three-month and six-month periods ended June 30, 2015, the Corporation purchased 6,700 and 18,800 of its common shares for $86 and $247 respectively.

The purchases under the bids are recorded in share capital. All common shares acquired under these bids were cancelled.

7. NET CHANGES IN NON-CASH WORKING CAPITAL

The net changes in non-cash working capital included in the statement of cash flows consist of the following:

	Six Months Ended June 30,	
	2016 $	**2015 $**
Accounts receivable	9,079	8,185
Supply inventory	51	(763)
Prepaid expenses and other	840	(375)
Accounts payable	(6,027)	(2,618)
Accrued liabilities	(1,994)	(1,192)
Net changes in non-cash working capital	**1,949**	**3,237**

8. INTEREST EXPENSE, NET OF INTEREST INCOME

Interest expense, net of interest income, from continuing operations included in the statement of comprehensive income consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 $	**2015 $**	**2016 $**	**2015 $**
Interest expense at Centers' level	270	293	557	592
Interest expense on convertible debentures	475	500	894	990
Amortization of available line of credit stand-by fees	61	74	120	151
Interest income at Centers' level	(3)	(70)	(8)	(133)
Interest income at corporate level	(107)	(50)	(130)	(103)
Interest expense, net of interest income, from continuing operations	**696**	**747**	**1,433**	**1,497**

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

9. LOSS (GAIN) ON FOREIGN CURRENCY

Loss (gain) on foreign currency included in the statement of income and comprehensive income consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 $	**2015 $**	**2016 $**	**2015 $**
Unrealized gain on foreign exchange forward contracts	-	(2,059)	-	(1,073)
Realized loss on foreign exchange forward	-	1,554	-	3,121
Translation loss (gain) on cash balances denominated in Cdn$	12	(62)	(770)	1,026
Loss (gain) on foreign currency	**12**	**(567)**	**(770)**	**3074**

10. INCOME TAXES

Income taxes from continuing operations reported in these consolidated financial statements are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Provision for Income Taxes	**2016 $**	**2015 $**	**2016 $**	**2015 $**
Current	(394)	(1,498)	(368)	(1,433)
Deferred	(4,592)	4,380	(7,481)	13,038
Income tax expense (recovery) from continuing operations	**(4,986)**	**2,882**	**(7,849)**	**11,605**

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

11. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share attributable to owners of the Corporation are calculated as follows:

		Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
		Continuing Operations	Discontinued Operation	Total	Continuing Operations	Discontinued Operation	Total
Net income for the period attributable to owners of the Corporation	$	(5,718)	(15)	(5,733)	9,279	9,687	18,966
Divided by weighted average number of common shares outstanding for the period		31,045,945	31,045,945	31,045,945	31,342,790	31,342,790	31,342,790
Basic earnings per share attributable to owners of the Corporation	**$**	**(0.18)**		**(0.18)**	**0.30**	**0.31**	**0.61**

		Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
		Continuing Operations	Discontinued Operation	Total	Continuing Operations	Discontinued Operation	Total
Net income (loss) for the period attributable to owners of the Corporation	$	(11,523)	4	(11,519)	20,012	10,214	30,226
Divided by weighted average number of common shares outstanding for the period		31,054,269	31,054,269	31,054,269	31,335,694	31,335,694	31,335,694
Basic earnings (loss) per share attributable to owners of the Corporation	**$**	**(0.37)**		**(0.37)**	**0.64**	**0.33**	**0.97**

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

11. EARNINGS (LOSS) PER SHARE (Continued)

Fully diluted earnings (loss) per share attributable to owners of the Corporation are calculated as follows:

		Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
		Continuing Operations	Discontinued Operation	Total	Continuing Operations	Discontinued Operation	Total
Net income (loss) for the period attributable to owners of the Corporation	$	(5,718)	(15)	(5,733)	9,279	9,687	18,966
Change in value of convertible debentures		-	-	-	(677)	-	(677)
Interest saved by converting debentures (tax effected)		-	-	-	368	-	368
Change in value of exchangeable interest liability (tax effected)		-	-	-	(3,172)	-	(3,172)
Interest expense on exchangeable interest liability		-	-	-	2,143	-	2,143
Modified net income (loss) for the period attributable to owners of the Corporation	$	(5,718)	(15)	(5,733)	7,941	9,687	17,628
Divided by weighted average number of common shares:							
Outstanding for the period		31,045,945	-	31,045,945	31,342,790	-	31,342,790
Deemed to be issued on the conversion of the outstanding convertible debentures		-	-	-	2,186,367	-	2,186,367
Deemed to be issued on the exchange of the outstanding exchangeable interest liability		-	-	-	5,881,333	-	5,881,333
Deemed to be issued on the exercise of stock options		-	-	-	-	-	-
Weighted average number of common shares*(1)*		31,045,945		31,045,945	39,410,490		39,410,490
Fully diluted earnings (loss) per share attributable to the owners of the corporation	**$**	**(0.18)**		**(0.18)**	**0.20**		**0.45**

[(1)] *For the three months ended June 30, 2016, the impact of convertible debentures and stock options were excluded from the dilutive weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.*

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

11. EARNINGS (LOSS) PER SHARE (Continued)

		Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
		Continuing Operations	Discontinued Operation	Total	Continuing Operations	Discontinued Operation	Total
Net income (loss) for the period attributable to owners of the Corporation	$	(11,523)	4	(11,519)	20,012	10,214	30,226
Change in value of convertible debentures		-	-	-	(3,708)	-	(3,708)
Interest saved by converting debentures (tax effected)		-	-	-	728	-	728
Change in value of exchangeable interest liability (tax effected)		-	-	-	(12,450)	-	(12,450)
Interest expense on exchangeable interest liability		-	-	-	4,890	-	4,890
Modified net income (loss) for the period attributable to owners of the Corporation	$	(11,523)	4	(11,519)	9,472	10,214	19,686
Divided by weighted average number of common shares:							
Outstanding for the period		31,054,269	-	31,054,269	31,335,694	-	31,335,694
Deemed to be issued on the conversion of the outstanding convertible debentures		-	-	-	2,186,367	-	2,186,367
Deemed to be issued on the exchange of the outstanding exchangeable interest liability		-	-	-	5,904,880	-	5,904,880
Deemed to be issued on the exercise of stock options		-	-	-	-	-	-
Weighted average number of common shares*(1)*		31,054,269		31,054,269	39,426,941		39,426,941
Fully diluted earnings (loss) per share attributable to the owners of the corporation	**$**	**(0.37)**		**(0.37)**	**0.24**		**0.50**

[(1)] For the six months ended June 30, 2016, the impact of convertible debentures and stock options were excluded from the dilutive weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

12. FINANCIAL INSTRUMENTS

12.1 Fair values and classification of financial instruments

The fair values of the convertible debentures and exchangeable interest liability are determined based on the closing trading price of the securities at each reporting period. The fair values of notes payable and revolving credit facilities at the Centers' level approximate their book values as the interest rates are similar to prevailing market rates. The fair values of all other financial instruments of the Corporation, due to the short-term nature of these instruments, approximate their book values.

The following table presents the carrying values and classification of the Corporation's financial instruments as at June 30, 2016 and December 31, 2015:

	June 30, 2016 $	December 31, 2015 $
Financial assets		
Fair value through profit or loss		
Cash and cash equivalents	58,879	57,969
Held-to-maturity (carried at amortized cost)		
Short-term investments	10,544	12,975
Loans and receivable (carried at amortized cost)		
Accounts receivable	40,469	48,754
Other assets	848	839
Financial liabilities		
Fair value through profit or loss		
Convertible debentures	34,217	30,614
Exchangeable interest liability	87,885	61,681
Other liabilities (carried at amortized cost)		
Dividends payable	2,253	2,107
Accounts payable	13,232	19,035
Accrued liabilities	12,637	14,307
Long-term debt	39,344	35,428

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

12. FINANCIAL INSTRUMENTS (Continued)

The financial instruments of the Corporation that are recorded at fair value have been classified into levels using a fair value hierarchy (note 15.17). The following tables represent the fair value hierarchy of the Corporation's financial instruments that were recognized at fair value as of June 30, 2016 and December 31, 2015. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	June 30, 2016			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	58,879	-	-	58,879
Short-term investments	10,544			10,544
Financial liabilities				
Convertible debentures	34.217	-	-	34.217
Exchangeable interest liability	-	87,885	-	87,885

	December 31, 2015			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Cash and cash equivalents	57,969	-	-	57,969
Short-term investments	12,975	-	-	12,975
Financial liabilities				
Convertible debentures	30,614	-	-	30,614
Exchangeable interest liability	-	61,681	-	61,681

12.2 Measurement of fair values

The following is the valuation technique used in measuring Level 2 fair values (the Corporation does not have any Level 3 fair values).

Financial Instrument	Valuation Technique
Exchangeable interest liability	*Market comparison technique:* The number of the Corporation's common shares to issue is based on the contractual agreements with the holders of non-controlling interest that have exchange agreements with the Corporation and take into account the distributions to the non-controlling interest over the prior twelve months. The liability is valued based on the market price of the Corporation's common shares converted to the reporting currency as of the reporting date.

13. RELATED PARTY TRANSACTIONS AND BALANCES

The Centers routinely enter into transactions with certain related parties for provision of services including management, anesthesia and physiotherapy, as well as for leases relating to the use of facilities and equipment. These parties are considered related through common ownership by the holders of the non-controlling interest in the respective Centers. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

The expenses (primarily general and administrative) resulting from the Centers' and IMD's transactions with related parties were $2,630 and $5,074 for the three and six months ended June 30, 2016, and $4,926 and $9,879 respectively for the three and six months ended June 30, 2015.

As of June 30, 2016, the amounts payable to related parties, included in the Centers' accounts payable, were $611 and as of December 31, 2015 were $875.

Certain of the physicians, who indirectly own the non-controlling interest in each of the Centers, routinely provide professional services directly to patients utilizing the facilities of the Centers and reimburse the Centers for the space and staff utilized. Also, certain of the physicians serve on the boards of management of the Centers and two such individuals perform the duties of Medical Director at the respective Centers and are compensated in recognition of their contribution to the Centers. Also, a physician with a non-controlling interest in SFSH is its Chief Executive Officer.

13.1 Other transactions

The Corporation owns a 32.0% equity interest in an associate. The Corporation has significant influence over the associate because of its equity position and it has representation on the board of the associate. The investment in and loan receivable from the associate as of June 30, 2016 were $412 and $95, respectively (December 31, 2015: $391 and $107, respectively). The Corporation also has a 0.35% ownership interest in an entity that holds indirect interest in BHSH for a total investment of $341 (December 31, 2015: $341), for which the investment is accounted for at cost in the consolidated financial statements. Together, the two investments comprise the 'Other assets' on the consolidated balance sheet.

14. COMMITMENTS AND CONTINGENCIES

14.1 Commitments

In the normal course of operations, the Centers lease certain equipment under non-cancellable long-term leases and enter into various commitments with third parties. In addition, certain of the Centers lease their facility space from related and non-related parties.

14.2 Contingencies

In the normal course of business, the Centers are, from time to time, subject to allegations that may result in litigation. Certain allegations may not be covered by the Centers' commercial and liability insurance. The Centers evaluate such allegations by conducting investigations to determine the validity of each potential claim. Based on the advice of the legal counsel, management records an estimate of the amount of the ultimate expected loss for each of these matters. Events could occur that would cause the estimate of the ultimate loss to differ materially from the amounts recorded.

15. SHARE BASED COMPENSATION

At the Corporation's Annual and Special Meeting of Shareholders held on May 12, 2016, shareholders approved a plan to grant stock options (the "Options") to acquire 1,000,000 common shares of the Corporation to its Chief Executive Officer. The grant was effective May 1, 2016, and the Options are exercisable at C$17.24 per share. The Options will vest after five years of employment, subject to the Corporation's maintenance of a dividend rate not less than the rate in effect at the time of the grant date.

During the quarter, the Corporation recognized $35 relating to the Options in salaries and benefits expense. The grant date fair value of the Options were measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at the grant date of the share-based compensation plan are as follows:

(In thousands of U.S. dollars, except per share amounts and where otherwise indicated)

15. SHARE BASED COMPENSATION (CONTINUED)

Fair value of stock option, grants and assumptions	
Fair value at grant date	C$1.33
Share price at grant date	C$17.01
Exercise price	C$17.24
Expected volatility (weighted average volatility)	23.60%
Option life (expected weighted average life)	5 years
Expected dividends	6.61%
Risk-free rate	1.03%

16. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Centers.

16.1 Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value (note 16.15).

16.2 Functional and presentation currency

The Corporation translates monetary assets and liabilities denominated in Canadian dollars, principally its convertible debentures, exchangeable interest liability and certain of its cash balances, which are all denominated in Canadian dollars, at exchange rates in effect at the reporting date. Non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations were incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses, including translation adjustments, are included in the determination of net income.

16.3 Basis of consolidation

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation (a) has the power over the entity, (b) is exposed, or has rights, to variable returns from its involvement with the entity, and (c) has the ability to use its power to affect its returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences

16. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

until the date that control ceases. Non-controlling interest represents the portion of a subsidiary's net earnings and net assets that are attributable to shares of such subsidiary not held by the Corporation.

The non-controlling interest in the equity of the Corporation's subsidiaries is included as a separate component of equity.

All intra-company balances and transactions have been eliminated in preparing these consolidated financial statements. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Corporation.

16.4 Business combinations

Business combinations are accounted for using the acquisition method as of the date when control is transferred to the Corporation. The Corporation measures goodwill as the excess of the sum of the fair value of the consideration transferred over the net identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Transaction costs that the Corporation incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in net income.

At the date of the acquisition, the non-controlling interest is measured at the non-controlling interest's proportionate share of the fair value of identifiable assets of the acquiree. Contingent consideration in respect of those acquisitions, accounted for as exchangeable interest liability, is recorded on the balance sheet with periodic changes in fair value of that liability reflected in net income.

16.5 Segment information

The operations and productive capacity of the Centers revolve around the provision of surgical procedures. Each Center is organized as an individual entity and separate financial statements are prepared for each entity. The chief operating decision makers of the Corporation, being the Chief Executive Officer and the Chief Financial Officer, regularly review performance of each individual Center to make decisions about resources to be allocated to each Center and assess their performance. Therefore, each Center represents an operating segment as defined by IFRS 8 *Operating Segments*.

16. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management of the Corporation has concluded that the operating segments of the Corporation meet the criteria for aggregation pursuant to IFRS 8, paragraph 12 and, therefore, discloses a single reportable segment. In forming its conclusion about the aggregation of the Centers, management of the Corporation evaluated the long-term economic characteristics of each Center, the comparative nature of the Centers' operations, and the level of regulation of each Center.

The services delivered by each Center and the patients who use those services are similar. The vast majority of patients are insured through private insurance or government insurance programs (i.e., Medicaid or Medicare), which allows for a wide group of patients electing to have their procedures performed at one of the Centers. The Centers principally provide surgical facilities, support staff and pre- and post-surgical care related to surgeries. Finally, the Centers have similar economic characteristics, which management defines as comparable long-term operating margins, recognizing differences between the Centers in payor mix, surgical specialties and local healthcare markets.

16.6 Discontinued operations

A discontinued operation is a component of the Corporation's business which can be clearly distinguished from the rest of the Corporation, both operationally and for financial reporting purposes. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statements of comprehensive income are re-presented as if the operation has been discontinued from the start of the comparative year. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount net of tax as net income from discontinued operations in the statement of comprehensive income.

16.7 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and all liquid investments purchased with a maturity of six months or less from the purchase date and which can be redeemed by the Corporation.

16.8 Short-term and long-term investments

Investments represent liquid investments purchased with a maturity of three months or more. Investments with maturities of more than three months but less than twelve months are classified as short-term and investments with maturities of twelve months or more are classified as long-term. The Corporation limits its exposure to credit risk through application of its investment policy. The policy permits investment of its cash and cash equivalents and short-term and long-term investments in (i) liquid securities issued or guaranteed by the Governments of Canada and the United States of America, or political subdivisions thereof and with (ii) certain Canadian chartered banks or banks regulated by the United States of America as listed in the policy. The carrying amount of investments represents the Corporation's maximum exposure to credit risk for such investments.

16. SIGNIFICANT ACCOUNTING POLICIES (Continued)

16.9 Accounts receivable

Accounts receivable are recorded at the time services are rendered at the amounts estimated to be recoverable from third-party payors and patients, by applying the following policies:

(i) Amounts billed are reduced by an allowance for third-party payor adjustments which are maintained at a level management believes reflects the estimated adjustments that will be applied upon collection of the amounts billed. The allowance is established using the third-party payor contracts effective at period end and/or based on historical payment rates.

(ii) An allowance for non-collectible receivable balances is recognized at a level management believes is adequate to absorb probable losses. Management determines the adequacy of the allowance based on historical data, current economic conditions, and other pertinent factors for the respective Center. Patient receivables are written off as non-collectible when all reasonable collection efforts have been exhausted.

Payments from third-party payors are generally received within 60 days of the billing date. However, accounts involving non-contracted payment sources, such as auto and general liability insurance, are subject to recovery efforts, including rebilling and insurance litigation, until they are collected or considered not collectible. Residual amounts due from patients, such as co-payments and deductibles, are considered past due 30 days after receiving payment from third-party payors.

16.10 Supply inventory

Supply inventory consists of medical supplies, including implants and pharmaceuticals. It is stated at the lower of cost or net realizable value, using the first-in, first-out valuation method.

16.11 Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation of property and equipment is computed using the straight-line and declining balance methods over the estimated useful lives of the assets. Assets under finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Centers will obtain ownership by the end of the lease term. Land is not depreciated.

16. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The estimated useful lives of property and equipment are as follows:

Building and improvements	3-40 years
Equipment and furniture	3-20 years

Leases that substantially transfer the risk and benefits of ownership are capitalized with the cost included in property and equipment and the related liability recorded in long-term debt.

Depreciation methods, useful lives and residual values are reviewed on an annual basis.

16.12 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of cost over the fair value of identifiable net assets acquired. For business acquisitions occurring after the date of transition to IFRS (January 1, 2010), goodwill is also recognized on non-controlling interest. Goodwill is stated at cost less accumulated impairment losses. Goodwill is not amortized but is reviewed at least annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

16.13 Other intangibles

Other intangibles are recognized only when it is probable that the expected future economic benefits attributable to the assets will be realized by the Corporation and the cost can be reliably measured. Other intangibles represent the value of the hospital operating licenses, medical charts and records, referral sources and trade names. Other intangibles are stated at cost less accumulated amortization and accumulated impairment losses, when applicable.

Upon recognition of an intangible asset, the Corporation determines if the asset has a definite or indefinite life. In making the determination, the Corporation considers the expected use, expiry of agreements, nature of assets, and whether the value of the assets decreases over time.

Amortization is recognized on a straight-line basis over the estimated useful lives of other intangibles, other than trade names, from the date they are available for use. The estimated useful lives of other intangibles are as follows:

Hospital operating licenses	5 years
Medical charts and records	5-10 years
Referral sources	10-15 years

16. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade names represent the value assigned to the reputation of the hospitals and their standing in the business and local community which allow them to earn higher than average returns. Trade names are not amortized as there is no foreseeable limit to the period over which trade names are expected to generate cash inflows for the Corporation.

16.14 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life, such as goodwill and trade names, are tested at least annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable. Non-financial assets that have a definite useful life which are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the cash generating unit (“CGU”) level, which is the lowest level for which there are separately identifiable cash flows. Management considers each Center as a CGU.

An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less cost to dispose and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in net income. It is allocated first to reduce the carrying amount of any goodwill allocated to the respective Center and, then, to reduce the carrying amount of the other assets of the respective Center on a pro rata basis.

16.15 Financial assets and liabilities

The Corporation initially recognizes financial assets on the date that they originate or on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Corporation assesses financial assets for impairment at each reporting date.

The Corporation initially recognizes financial liabilities on the date that they originate or on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

16. SIGNIFICANT ACCOUNTING POLICIES (Continued)

All financial assets and liabilities are initially recorded at fair value and designated into one of the following categories:

(i) Fair value through profit or loss ("FVTPL")

Cash and cash equivalents, certain short-term investments, foreign exchange forward contracts, convertible debentures and exchangeable interest liability are designated as FVTPL and are carried at fair value with unrealized gains or losses recognized through net income.

(ii) Held-to-maturity

Certain short-term and long-term investments are designated as held-to-maturity and are carried at amortized cost using the effective interest rate method.

(iii) Loans and receivables

Accounts receivable and other assets are designated as loans and receivables and are carried at amortized cost using the effective interest rate method.

(iv) Other liabilities

Interest payable, dividends payable, accounts payable, accrued liabilities and long-term debt are designated as other liabilities and are carried at amortized cost using the effective interest rate method.

16.16 Impairment of non-derivative financial assets

Financial assets not designated as FVTPL, including interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

16.16.1 Financial assets measured at amortized cost

The Corporation considers evidence of impairment for financial assets measured at amortized cost on both an individual and collective basis. In assessing impairment, the Corporation uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income and reflected in an allowance account. If the amount of an impairment loss subsequently decreases, then the amount is reversed through net income.

16. SIGNIFICANT ACCOUNTING POLICIES (Continued)

16.16.2 Equity-accounted investee

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in net income and is reversed if there has been a favourable change in the estimates used to calculate that recoverable amount.

16.17 Measurements of fair value

A number of the Corporation's accounting policies and disclosures require the measurement of fair value for both financial and non-financial assets and liabilities.

The Corporation has an established control framework with respect to the measurement of fair values. The valuation of all fair value measurements is overseen directly by the Chief Financial Officer. Management of the Corporation regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from these sources to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Corporation uses observable market data to the extent possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation technique as follows:

Level 1 – unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Corporation recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

16.18 Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic

16. SIGNIFICANT ACCOUNTING POLICIES (Continued)

benefits will be required to settle the obligation. Provisions are measured at the estimated expenditures required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values where the time value of money is material. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

16.19 Convertible debentures

The Corporation's convertible debentures are convertible into a fixed number of common shares at the option of the holder. The number of common shares to be issued does not vary with changes in the market value of the convertible debentures.

The convertible debentures are denominated in Canadian dollars while the Corporation's functional currency is U.S. dollars, which requires the Corporation to deliver a variable amount of cash to settle the obligation. Because the conversion option requires the Corporation to deliver a fixed number of common shares to settle a variable liability, the convertible debentures are considered hybrid financial instruments. The Corporation elected to account for the convertible debentures as financial liability measured at FVTPL. The changes in the recorded amounts of the liability, resulting from the changes in the fair value of the convertible debentures and fluctuations in foreign exchange rates between the periods, are reflected in net income.

16.20 Exchangeable interest liability

Exchangeable interest liability represents an estimated liability for the remaining portion of the interest in the Centers held by the non-controlling interest which can be exchanged, subject to certain restrictions, for common shares of the Corporation. The exchangeable interest liability has been designated as FVTPL and accordingly is re-measured at the end of each reporting period taking into account (i) the calculated amount of common shares potentially issuable for the remaining portion of the exchangeable interest in the Centers held by the non-controlling interest, (ii) the market value of common shares, and (iii) the exchange rate between Canadian and U.S. dollars at the end of the reporting period. The change in value of the exchangeable interest liability is included in net income for the respective periods.

16.21 Facility service revenue

Facility service revenue consists of the actual amounts received and the estimated net realizable amounts receivable from patients and third-party payors. Facility service revenue is derived from the provision of the facilities and ancillary services for the performance of scheduled (as opposed to emergency) surgical, imaging, and diagnostic procedures. The Centers bill either their patients or the patients' third-party payors as of the date of service upon completion of the procedure. Facility service

16. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

revenue is recognized as of the date of the service when the recovery of consideration is probable and the Corporation is satisfied with the performance objectives.

A small amount of facility service revenue is received directly from self-paying patients while the majority of facility service revenue is received from third-party payors that provide insurance and coverage to patients. Each Center has agreements with third-party payors that provide for payments at amounts different from the Center's established rates. Payment arrangements include pre-determined rates per diagnosis, reimbursed costs, discounted charges, and per diem payments. As a result of established agreements with third-party payors, settlements under reimbursement arrangements are determined with a high degree of accuracy and are accrued on an estimated basis in the period the services are rendered, and are adjusted in future periods, as final settlements are determined. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the period of settlement. Revenues relating to IMD's third party business solution service are included in facility service revenue, and consist of fees for business services provided to healthcare entities, recorded as services are provided and collection is reasonably assured.

16.22 Income taxes

Income tax expense (recovery) consists of current and deferred taxes. Income tax expense (recovery) is recognized in the statement of comprehensive income except to the extent that it relates to a business combination or items recognized directly in equity, in which case it is recognized in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

The Corporation calculates deferred income taxes using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted at the end of the reporting period. The effect on tax assets and liabilities of a change in tax rates is recognized in net income in the period that includes the date of enactment or substantive enactment.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are always recognized in full. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis. Deferred tax is provided on temporary differences arising on investments in subsidiaries, expect where the timing of the reversal of

16. SIGNIFICANT ACCOUNTING POLICIES (Continued)

temporary differences is controlled by the Corporation and it is probable that the temporary differences will not reverse in the foreseeable future.

16.23 Share based payments

The Plan is an equity settled, share-based compensation plan, under which the entity receives services from a key executive as consideration for the options of the Corporation. The fair value of the services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. When the options are exercised, the Corporation issues new shares. The proceeds received, together with the amount recorded in contributed surplus, are credited to share capital when the options are exercised.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of fully diluted earnings per share.

16.24 New and revised IFRS not yet adopted

The Corporation has not applied the following new and revised IFRS that have been issued but are not yet effective:

16.24.1 IAS 7 *Statement of Cash Flows*

As part of their disclosure initiative, the IASB has issued amendments to IAS 7 *Statement of Cash Flows* requiring a reconciliation of liabilities arising from financing activities to enable users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a company. The Corporation intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

16. SIGNIFICANT ACCOUNTING POLICIES (Continued)

16.24.2 IAS 12 *Income Taxes*

In January 2016, the IASB has issued amendments to IAS 12 *Income Taxes* to provide clarification on the requirements relating to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The Corporation intends to adopt the amendments to IAS 12 in its consolidated financial statements for the annual period beginning January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

16.24.3 IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the complete IFRS 9 *Financial Instruments* ("IFRS 9 (2014)"). The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The Corporation intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

16.24.4 IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 11 *Construction Contracts*, IAS 18 Revenue, and the related Interpretations when it becomes effective. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Corporation intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

16.24.5 IFRS 16 *Leases*

In January 2016, the IASB issued IFRS 16, which provides guidance for leases whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding right of use asset on the balance sheet. There are minimal changes to lessor accounting. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided IFRS 15 *Revenue from Contracts with Customers* has been adopted. The Corporation intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

16. SIGNIFICANT ACCOUNTING POLICIES (Continued)

16.24.5 IFRS 2 *Share-Based Payments*

In June 2016, the IASB issued amendments to IFRS 2 *Share-Based Payments*. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of the adoption of the amendments has not yet been determined.

17. SUBSEQUENT EVENT

On July 15, 2016, the Corporation purchased an 84% indirect interest in the real estate on which Unity Medical and Surgical Hospital (“Unity”) is situated, for a cash purchase of $27 million, through a limited partnership in which the Corporation has an indirect 84% limited partnership interest. Unity is a physician-owned medical and surgical hospital located in Mishawaka, Indiana. On July 15, 2016, the Corporation announced that it entered into a letter of intent to acquire, in stages, an indirect 83% interest in Unity.